

MIGO Opportunities Trust plc – Outlook for H2 2022

Trust insight



Nick Greenwood, fund manager of MIGO Opportunities Trust plc, discusses the outlook for the trust in the second half of 2022.

Looking forward, the vast monetary and fiscal stimulus unleashed by the central banks in response to the pandemic is steadily being withdrawn. This will continue to take an inevitable toll on asset values. Where we differ from current consensus is that we believe that rate rises will slow the economy much quicker than they did in past cycles as the amount of debt within the financial system is much higher. With this in mind, we are likely, therefore, to experience a shorter but more brutal correction than many commentators are predicting. The majority of the liquidity fuelled gains we enjoyed post Covid have already been lost and market participants are already bearish. It is difficult to recall the last time we heard a bullish commentary. It is likely that we have already experienced the bulk of the bear phase but with scope for some gut wrenching falls before the cycle is completed. That said, early stage growth stocks still feel like a bubble where some air still needs to escape.

Turbulent markets can have a tendency to throw up opportunities. Given the historically wide discounts which can be found in the closed-ended sector, there are plenty of trusts that have the potential for a dramatic re-rating. We do expect more volatility to come as the global economic headwinds put pressure on markets. At the time of writing, we have seen most stocks fall in unison. As we discussed earlier with regard to the mining sector, the wheat has yet to be sorted from the chaff. Once the difficulties from inflation and rising interest rates start properly feeding through into company results, we may see a divergence between those with stronger underlying portfolios and we are constantly monitoring where these potential pitfalls could be. One of the advantages of the closed-ended world, in our opinion, is the variety of asset classes now available to us. This means that we have more opportunities to choose from. There will always be sectors that are hot, where investors have already priced in the good news, and those under the cosh, where fears are fully reflected in the market price. A recent example would be how we sold out of the booming shipping industry and recycled the money into friendless biotechnology sector. Challenging conditions often create the foundations of the next bull run and we believe that we are well positioned to take advantage of any potential pricing inefficiencies given our closed-ended structure, which allows us to be patient whilst waiting for investments to mature.

Nick Greenwood
Fund Manager, MIGO Opportunities Trust plc

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